

Message Text

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O R 061150Z SEP 78
FM AMEMBASSY REYKJAVIK
TO SECSTATE WASHDC IMMEDIATE 8705
INFO AMEMBASSY COPENHAGEN
AMEMBASSY OSLO
AMEMBASSY STOCKHOLM
USMISSION USNATO
CINCLANT NORFOLK VA
CINCEUR VAIHINGEN GE
COMICEDEFOR KEFLAVIK IC

C O N F I D E N T I A L SECTION 1 OF 3 REYKJAVIK 1189

E.O. 11652: GDS
TAGS: PINT, IC
SUBJECT: ASSESSMENT OF NEW GOVERNMENT

REF: A. REYKJAVIK 1174 DTG 011653Z SEP 78 (NOTAL)
B. REYKJAVIK 1160 DTG 311543Z AUG 78 (NOTAL)

SUMMARY: NEW GOI WHICH TOOK OFFICE SEPTEMBER 1 IS JERRY-
BUILT COMPROMISE WHICH HAS ALREADY CAUSED FRICTION BETWEEN
ITS LARGEST COMPONENTS, SOCIAL DEMOCRATIC PARTY (SDP) AND
PEOPLE'S ALLIANCE (PA); THIRD COALITION PARTNER, PROGRESSIVE
PARTY (PP) IS ILL-SUITED TO TASK OF MEDIATION. GOVERNMENT
PROGRAM IS MEANT TO DO LITTLE MORE THAN PUT BANDAID ON
AILING ECONOMY: FOR ALL THE RHETORIC, ONLY CERTAIN SHORT-
TERM MEASURES ARE DIFFERENT FROM THOSE UNDERTAKEN BY
PREVIOUS GOVERNMENT, AND THESE MAY PROVE EQUALLY
INEFFECTIVE. NEW MINISTERS, WHILE PROBABLY MORE
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COMPETENT AS A GROUP THAN THEIR IMMEDIATE PREDECESSORS,
ARE NOT STELLAR PERFORMERS, AND IT SEEMS THAT SEVERAL
ROLES HAVE BEEN MISCAST, PERHAPS INTENTIONALLY.
FOREIGN POLICY WILL BE CONTENTIOUS ISSUE THAT WILL NOT
BE RESOLVED TO ANYONE'S SATISFACTION. USG AND NATO
INTERESTS LIKELY TO BE SAFEGUARDED BY SOCIAL DEMO-
CRATS WHO HAVE SHOWN THEMSELVES WILLING TO STAND UP TO

PA ON THIS ISSUE IF ON NO OTHER. GIVEN PARTY DISAGREEMENTS AND MAGNITUDE OF PROBLEMS FACED, THERE IS EVERY INDICATION THAT THIS GOVERNMENT WILL BE SHORT-LIVED. END SUMMARY.

1. ICELAND'S THREE-PARTY GOVERNMENTS HISTORICALLY HAVE INHERENT WEAKNESSES, AND NEW GOI STARTS OUT WITH ADDITIONAL HANDICAPS. IT IS CONSTRUCTED ON BASE OF ANIMOSITY BETWEEN SDP AND PA, AND IS UNDER LEADERSHIP OF PP CHAIRMAN OLAFUR JOHANNESSEN WHOSE PARTY SUFFERED SHARPEST LOSSES IN NATIONAL ELECTION. FINAL RESULT OF WEEKS OF TIRING COALITION NEGOTIATIONS WAS AGREEMENT TO DISAGREE ON BASIC POLICY AS EVIDENCED BY GOI PROGRAM STATEMENT WHICH IS VAGUE ON ALL BUT SHORT-TERM ECONOMIC MEASURES.

2. GOI WILL END RESTRICTIONS ON COST-OF-LIVING WAGE INCREASES IMPOSED BY PREVIOUS GOVERNMENT AND IMPOSE VERY SIMILAR RESTRICTIONS OF ITS OWN. BASIC DIFFERENCE IS THAT NOW GOVERNMENT INCLUDES "LABOR PARTIES", PA AND SDP, AND WILL IMPLEMENT NEW LAW FOLLOWING CONSULTATIONS WITH LABOR MOVEMENT. DEVALUATION, RECOMMENDED TO CENTRAL BANK BY GOI AS PART OF BASIC PROGRAM, IS OVERDUE STEP TO WHICH ALL PARTIES ARE AGREED. OTHER MEASURES, SUCH AS LOWER CONSUMER PRICES AND LOWER INTEREST RATES ON BUSINESS LOANS, GIVE IMPRESSION THAT

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ACTION IS BEING TAKEN; IN FACT, HIGHER TAXES TO COMPENSATE FOR THESE REDUCTIONS WILL ELIMINATE ANY REAL GAIN. NONETHELESS, SOME MOVES MAY BE HELPFUL. INCREASED TAXES ON INDIVIDUALS IN HIGH INCOME BRACKETS AND BUSINESSES COULD DAMPEN EXCESSIVE DEMAND WHICH LED TO ALARMING INCREASE IN IMPORTS OF CONSUMER DURABLES OVER PAST YEAR. POSTPONEMENT OF LONG PLANNED TARIFF REDUCTION COULD BE OF MARGINAL HELP IN SLOWING IMPORTS. CLOSER COOPERATION WITH LABOR MAY ALSO HELP TO REDUCE INFLATION, CURRENTLY RUNNING AT ABOUT FIFTY PERCENT ANNUAL RATE, BY REDUCING WAGE INCREASES. HOWEVER, WHEN POLICY STATEMENT BEGINS TO TOUCH ON LONGER-TERM ECONOMIC MEASURES, IT BECOMES NEBULOUS, REFLECTING DEEP DIVISIONS BETWEEN PA AND SDP.

3. NEW CABINET IS INDEED A CAPABLE ONE. MINISTRY FOR MINISTRY, THERE ARE PROBABLY MORE PLUSES THAN MINUSES IN COMPARISON WITH OUT-GOING CABINET. NEVERTHELESS IT APPEARS TO BE CABINET THAT WAS MADE TO FAIL. IT IS NOT SO IMPORTANT THAT ONLY PRIME MINISTER HAS HAD PREVIOUS CABINET EXPERIENCE, BUT FOUR OF NINE MINISTERS HAVE NEVER SERVED IN ALTHING NOR IN ANY OTHER ASPECT OF

NATIONAL GOVERNMENT. MOREOVER, MINISTRIES AND PERSONALITIES SEEM MISMATCHED; E.G., NON-LAWYER HEADING JUSTICE MINISTRY, BIOLOGIST RUNNING MINISTRY OF INDUSTRIES, ENGINEER AS FISHERIES MINISTER, AND PA MINISTER OF COMMERCE IS ALREADY SEEN AS A BAD JOKE FOR HIS COMPLETE UNFAMILIARITY WITH FIELD. IN FACT, PA CABINET MINISTERS ARE PARTY'S SECOND-STRING TEAM WITH ITS THREE HEAVIER WEIGHT PERSONALITIES (CHAIRMAN LUDVIK JOSEPPSON, VICE CHAIRMAN KJARTAN OLAFSSON, AND ECONOMICS EXPERT GEIR GUNNARSSON) OPTING OUT OF GOVERNMENT PARTICIPATION. ON SDP SIDE, PARTY'S LEADING VOTE-

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GETTER, VILMUNDUR GYLFASON, NOT ONLY DECLINED CABINET SPOT BUT DECLARED HIS OPPOSITION TO GOVERNMENT POLICY. THESE FACTORS DO NOT BODE WELL FOR EFFECTIVE ADMINISTRATION.

4. ABSENCE OF JOSEPPSON FROM GOVERNMENT IS PARTICULARLY SIGNIFICANT AS SIGN THAT PA DOES NOT INTEND TO ALLOW COALITION TO SUCCEED. WE BELIEVE THAT JOSEPPSON WAS WILLING TO ACCEPT PA ROLE IN COALITION WITH SDP BUT ONLY ON LIMITED BASIS. NOT WISHING TO BEAR RESPONSIBILITY FOR FAILURE OF SUCH A GOVERNMENT, JOSEPPSON WAS NOT LIKELY TO ENTER CABINET; HE CHOREOGRAPHED HIS MOVES WELL, HOWEVER, BY DECLARING THAT HE WOULD ONLY

PARTICIPATE IN COALITION AS PRIME MINISTER, SOMETHING TO WHICH HE KNEW SDP COULD NOT AGREE. OUTCOME OF MANEUVER IS THAT JOSEPPSON WILL HAVE FULL CONTROL OVER ACTIONS OF PA WITHIN CABINET BUT AS "OUTSIDER", HE WILL BE FREE TO CRITICIZE.

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5. ALTHOUGH GOI HAS BEEN IN OFFICE ONLY FEW DAYS, RIVAL PA AND SDP HAVE ALREADY BEGUN TO SNIPE AT ONE ANOTHER. MEMBERS OF SDP SAY THAT OTHER TWO PARTIES AGREED TO FORMULATE LONG-TERM ECONOMIC PROGRAM AFTER INSTALLATION OF NEW GOVERNMENT (SOMETHING SDP CHAIRMAN BENEDIKT GRONDAL PROMISED PARTY FAITHFUL WHEN HE SOUGHT THEIR ENDORSEMENT FOR COALITION PACT - REYKJAVIK 1169 (NOTAL). JOSEPPSON HAS NOW DENIED THAT PARTIES CAME TO ANY UNDERSTANDING ABOUT REFORMING ECONOMIC SYSTEM. FOR THEIR PART, SOME MEMBERS OF PA HAVE ATTACKED SOCIAL DEMOCRATS AND GOI POLICY STATEMENT FOR NOT SEEKING WITHDRAWAL OF ICELAND DEFENSE FORCE (IDF). MEANWHILE, MEMBERS OF BOTH PARTIES HAVE BEEN ARGUING OVER FOREIGN POLICY SECTION OF GOVERNMENT DECLARATION (REF A). QUESTION OF WHETHER CONSTRUCTION OF DUAL-PURPOSE AIR TERMINAL FALLS WITHIN PURVIEW OF QTE NEW MAJOR PROJECTS IN THE AGREED AREA OF THE DEFENSE FORCE UNQTE HAS YET TO BE RESOLVED WITH PP AND SDP SUPPORTING MOVING AHEAD ON PROJECT WHILE PA HAS STATED ITS OPPOSITION. (SEPTTEL FOLLOWS).

6. WE BELIEVE, HOWEVER, THAT WHILE ISSUE OF FOREIGN POLICY WILL REMAIN SUBJECT OF DISPUTE WITHIN GOVERNMENT, SOCIAL DEMOCRATS WILL PROBABLY STAND FIRM ON GOI COMMITMENT TO NATO AND RETENTION OF IDF. SDP HAS ALREADY SHOWN ITSELF TO BE UNYIELDING IN THIS AREA: THIS IS FIRST TIME THAT PA HAS JOINED GOVERNMENT WHICH DID NOT CALL FOR WITHDRAWAL OF IDF. THIS WAS ONLY BASIS ON WHICH SDP WOULD AGREE TO PARTICIPATE IN GOVERNMENT, AND ANYTHING LESS WOULD CERTAINLY HAVE BEEN REJECTED BY SDP CENTRAL COMMITTEE (REYKJAVIK 1169 NOTAL). THEREFORE WHILE NEW GOI POLICY RE NATO AND IDF MAY SEEM

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NEUTRAL, USG DOES HAVE OUTSPOKEN SUPPORTERS WITHIN CABINET AND IN ALTHING WHO WILL BE DEFENDING OUR MUTUAL SECURITY INTERESTS.

7. WITHIN CONTEXT OF ICELANDIC POLITICAL SCENE,
PROGRESSIVE PARTY IS BIG WINNER IN NEW GOVERNMENT.
PP, WHICH WAS MOST DISCREDITED PARTY FOLLOWING NATIONAL
ELECTION, HAS NOW BOUNCED BACK TO LEAD ANOTHER
GOVERNMENT, THIRD CONSECUTIVE ONE IN WHICH IT HAS TAKEN
PART. ANOTHER WINNER IS OPPOSITION INDEPENDENCE
PARTY (IP). BY NOT PARTICIPATING IN GOVERNMENT WHICH
MAY WELL BE DOOMED TO FAILURE, AND THEREBY AVOIDING
ONUS OF HARD ECONOMIC DECISIONS WHICH MUST BE TAKEN IF
SITUATION TO BE BROUGHT UNDER CONTROL, IP WILL HAVE
OPPORTUNITY TO GET ITS HOUSE BACK IN ORDER BEFORE
FACING ELECTION WHICH MAY COME AS SOON AS NEXT YEAR.
PEOPLE'S ALLIANCE MUST ALSO BE SEEN AS COMING OUT
AHEAD IN STRUGGLE TO FORM CURRENT GOVERNMENT. IT HAS
CONCEDED POINT RE FOREIGN POLICY BUT PARTY HAS DONE
SO WITH LOFTY STATESMAN-LIKE STANCE; THAT IS, PUTTING
ASIDE PARTY CONCERNS FOR SAKE OF SOLVING COUNTRY'S
PRESSING ECONOMIC PROBLEMS. AT SAME TIME, PA'S
RESERVATIONS RE IDF AND NATO HAVE BEEN EMBODIED IN
GOI POLICY DECLARATION ITSELF. FURTHER, ABSENCE OF
PA CHAIRMAN FROM CABINET (PER PARA 4) GIVES PARTY
CHANCE TO HAVE ITS CAKE AND EAT IT TOO. BIG LOSER IN
THIS PROCESS IS SDP. SOCIAL DEMOCRATS HAVE BEEN
PUBLICLY EMBARRASSED BY GIVING IN TO PA ON LONG-TERM
ECONOMIC REFORMS ISSUE AND BY ACCEPTING PARTNERSHIP
WITH PP WHOSE CORRUPTION SDP RAILED AGAINST SO VEHEMENTLY
DURING ELECTION CAMPAIGN. PARTICIPATION
IN GOVERNMENT RECEIVING LUKEWARM BACKING OF

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PARTY STALWARTS, SEVERAL MEMBERS OF SDP ALTHING FACTION ARE DISENCHANTED, AND SDP CHAIRMAN GRONDAL HAS LOST SOME SUPPORT. MANY SOCIAL DEMOCRATS BELIEVED THAT PA AND PP SOUGHT GOVERNMENT WHICH COULD NOT LAST SINCE BOTH THOUGHT THAT THEY COULD MAKE GAINS AT SDP EXPENSE IN ANY EARLY ELECTION. AS RESULT OF FORMATION OF THIS COALITION, SOCIAL DEMOCRATS' FEARS OF EARLY ELECTION ARE NOT UNREASONABLE.

8. IN OUR MANY CONTACTS WITH ICELANDERS, BOTH OFFICIAL AND UNOFFICIAL, DURING LAST FEW DAYS, MOST GENEROUS ESTIMATE PUTS LIFE OF THIS GOVERNMENT AS TWO YEARS, AND EVEN THAT WAS HIGHLY QUALIFIED PROJECTION. MOST BELIEVE THAT GOI WILL SURVIVE SIX TO TWELVE MONTHS, AND THERE IS EVIDENCE TO SUPPORT THIS MORE PESSIMISTIC VIEW. SOME MPS OF GOVERNMENT PARTIES HAVE PRIVATELY SAID THAT THEY DO NOT EXPECT TO BE ABLE TO WORK WITH THEIR
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COLLEAGUES FOR MORE THAN FEW MONTHS, AND THEY PLAN TO KEEP CLOSE TO THEIR CONSTITUENCIES IN ANTICIPATION OF NEW ELECTIONS: SEVEN OF FORTY GOVERNMENT MEMBERS OF ALTHING HAVE REPORTEDLY STATED THEIR OPPOSITION TO PRESENT GOVERNMENT WHICH COULD LEAVE GOI WITH RAZOR-THIN MAJORITY IN PARLIAMENT; GOI POLICY DECLARATION IS PURPOSEFULLY VAGUE ON LONG-TERM MEASURES DEALING WITH ECONOMIC AND OTHER MATTERS; DECLARATION ALSO STATES THAT IT WILL BE SUBJECTED TO REVIEW IN 1979 LEADING TO SPECULATION THAT GOVERNMENT WILL BREAK UP AT THAT TIME; IN ADDITION, PA CHAIRMAN JOSEPPSSON STATED IN SEPTEMBER 4 INTERVIEW THAT GOI WAS MERELY "INTERIM GOVERNMENT". WE WOULD THEREFORE NOT BE SURPRISED TO SEE INCREASING SIGNS OF TROUBLE WITHIN GOI IN MONTHS IMMEDIATELY AHEAD.
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